



Ambassador Jeffrey L. Bleich – Australian Leadership Retreat

Remarks at the Australian Leadership Retreat
“The USA, its economy and its place
in the emerging world order”
Hayman Island

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Thank you very much for that kind introduction. I'd like to thank the ADC Forum for hosting this event, even if it requires us to come to these grim surroundings. I've cabled back to the State Department, requesting combat pay.

I've been asked to discuss the U.S. economy and its global outlook. We'll then have a panel of experts that has the task of rejecting whatever I've said. This way we can feel we are in Davos after all.

One problem with discussions about the economy is that people tend to focus on statistical snapshots, rather than appreciating overall trends. So I'd like to offer, I hope, a little perspective about the U.S. economy coming out of the GFC. Where we were, where we are today, how we got here, where I foresee us going, and some of the factors that might affect those predictions. And do that in about 10 minutes.

1. The GFC

Let's start with the GFC. Although people like to characterize it as a financial tsunami, it was really just the predictable effect of bad policy and bad business judgments. There was no strange and unforeseen event that caused the GFC. It was caused by a system that allowed banks to leverage risk beyond reason, to disguise that risk, and to avoid any serious regulatory oversight. This was a failure of responsibility – its size was due to the scale of the irresponsibility by certain financial services companies, rating agencies, and government regulators alike.

But the crisis really was a crisis. When President Obama took office the economy looked terrible. Credit had virtually locked up. The economy was falling at a rate of 6% per quarter. The stock market was in freefall. Major banks had already collapsed. And the deficit before he even started was \$1.3 trillion. Virtually all economists were projecting either another Great Depression or at best a 2-3 year recession before the U.S. would show signs of life. The outgoing Treasury Secretary, Hank Paulson, had taken to randomly vomiting at meetings. It was that bad. I remember being there in the early



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days of the Obama White House seeing the stock market hit 6500 points and listening to serious pundits urge us to nationalize the banks, and it did give you a little bit of vertigo.

Fortunately, as Mark Twain said, “rumors of our death were greatly exaggerated.” With a combination of the federal stimulus package, the stress tests and recapitalization of the banks, the restructuring of the American car industry and the many steps taken by the Federal Reserve to ease credit, we’ve seen a remarkable turn-around.

We’ve pulled out of the recession and have now had three positive quarters in a row, and are expecting positive growth of about 1.6%. The Dow came back and has stabilized at around 10,000. The U.S. not only saved 8.5 million jobs, but we are continuing to grow private sector jobs each quarter. And even on the deficit – the latest bogeyman of the pessimists – the news is good. The Congressional Budget Office (CBO) is now projecting that federal budget deficits will decline markedly, falling from 7% of GDP in 2011 to reach a low of 2.5% of GDP in 2014.

I don’t want to sound like everything is now fine. I’m sure that there will be questions raised about the strength and sustainability of the recovery on other dimensions. But my point is this. If I had attended this event at this same time last year and told you that one year from now the U.S. would be fully out of recession, have posted three positive quarters in a row, the Dow would return to the 10,000 range, and the deficit would be falling, you’d have thought I was crazy, and sent out a search party to find the real Ambassador, figuring he was bound tied up in a closet somewhere here on Hayman Island.

I don’t claim that all of this was the result of the Administration’s efforts. Great cooperation among the G-20 was a major factor as well. But a critical factor was also this: the real underpinnings of the U.S. economy had always remained strong; it was the markets and the regulators that had gone weak. We were still producing a record number of new patents in critical technologies – particularly clean-tech, biotech, and high-speed communications. In the depth of the GFC, we had the second highest number of patents filed in the past decade and U.S. higher education and business are still attracting the best minds in the world based on higher-ed applications and H1 visa application rates. The fact that the international markets were willing to lend so much money to the U.S. was, itself, a demonstration that financial institutions recognized the underlying strength of the U.S. economy. Indeed, once the banks found religion again, they were able to return to profitability in record time and pay back the government loans with interest.

2. Inoculating the Economy

Now that we’ve saved the patient, we’ve refocused on attacking the disease itself as well as some of the complications of surgery. What do I mean by that? The disease was an



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undisciplined market and an anemic regulatory system to stop it. We addressed this with comprehensive financial reform legislation that ensures that the events that caused the GFC the last time won't be able to occur again: banks – not the taxpayers – will pay for future bank failures and consumers will be protected. The reforms will require financial firms to change the way they do business, change the way they treat customers, change the way they manage risk, and change the way they reward their executives.

As for the surgical complication, the main one was an increase in the deficit. As I said, the deficit is already coming down. This is partly because of the banks and other sectors repaying their loans with interest. In part it is also because of the certain tax cuts for the wealthiest 2% are scheduled to expire, which will stop the bleeding of \$700 billion from the U.S. treasury. In part, it's because we've renewed our focus on trade which could lead to doubling U.S. exports in the next five years. Finally, the deficit is coming down because all of this has a multiplier effect -- accelerating the recovery by renewing confidence in America's economy.

3. The Future

So what does all this tell us about the future? Two things: our priority is on innovation (particularly clean tech), and on increased trade.

First innovation. During the GFC, Rahm Emanuel used to say "A crisis is a terrible thing to waste." We were able to pass over \$100 billion worth of grants and incentives to stimulate clean-tech. That money reveals where the U.S. is betting its money. We are betting on our ability to develop cheaper, cleaner, and sustainable energy sources and distribution networks that will not only reduce our debts, but produce another boom.

Second, we have refocused on exports. The President's National Export Initiative (NEI) aims to improve the American economy's ability to export. The goal is to double U.S. exports over the next five years. Its success hinges on less—not more—protectionism. Improved export performance will, in turn, create new jobs.

In short we are returning to fundamentals. The U.S. growth in the past 50 years hasn't been based on exploiting our labor or our resources. That's the race to the bottom and it isn't a race any of us should run. We have grown based on having an educated and trained workforce that can develop and produce innovative products that nobody else can. Airplanes, automobiles, telephones, televisions, personal computers, the internet, these were each watersheds of innovation. This spirit of innovation has not changed and will continue to drive growth into the future. We're in better shape demographically, and along several other dimensions, than most other major economies from the past 50 years, such as Germany and Japan. So yes, I think we have some tough challenges in getting people back to work today, but long term things look good.



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4. Global Role of the U.S. Over the Coming Decades

Finally, I promised to talk about factors that could affect the economy. I think the big risks are market dislocations, a failure to address softness in certain sectors of our economy, a tilt toward protectionism, or unexpectedly strong or unfair competition globally.

(1) Obviously, other market dislocations can happen. One example is the recent problems in Europe. The Euro's devaluation has had the effect of pushing up the dollar, which in turn affects our export projections. So we have to be prepared for the unexpected and work with other partners to stabilize markets.

(2) Second, there are still soft spots in our economy. The housing market is still digesting the glut of sub-primed financed homes. Several states have structural deficits that could impede growth. So I think we'll need to address that.

(3) Although you hear about a new era of American protectionism, I wouldn't bet on it. This tends to be more campaign rhetoric than reality, and the majority of Congress understands that we can only grow our economy and our exports if we are reducing trade barriers.

But I'm not naïve about this. We are coming into elections and the rhetoric will change and possibly the membership of Congress could change as well. The U.S. is still in the early phase of economic recovery. Job creation is growing but when you are out of work that statistic doesn't matter until you have a job. Unemployment rates are coming down slower than we'd like, and as they persist, I would not be surprised if we begin to see calls for various forms of protectionism by members of Congress.

But let me be clear about this: whatever the outcome of the elections, President Obama will remain steadfast in his opposition to new tariffs, quotas or other forms of protectionism. He remains committed to passing the already negotiated South Korea Free Trade Agreement and other FTAs. Protectionism does little to create jobs, and if foreigners retaliate, it costs jobs.

(4) Finally, competition. There has been a great deal of talk about China becoming the world's second largest economy. I think that fact does not pose a threat – it actually reinforces the strength of U.S. international leadership. China's economic growth is impressive and will continue to be strong. China made some smart economic reforms and the U.S. has become the principal market of Chinese goods. But even with this growth, China is still only where the U.S. economy was in 1910. Half of its citizens live



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in poverty, and it still takes billions of dollars in each in aid from multilateral institutions. The U.S. would actually like to see China continue to grow because that stabilizes markets, and will allow China to contribute more to global economic development.

As for fair competition, the United States will continue to push for level playing fields, encourage others to respect human rights, adopt progressive labor laws pursue sustainable exchange rate policies

So let me end with this. 18 months ago the patient was on the table with cardiac arrest and a bad prognosis. Today, he is up, running around, taking better care of himself, and the outlook is very good. We've got some hard work left to do, but if we, the U.S., remain disciplined, we are poised to bring about stronger and more balanced global economic growth and prosperity.